

**HBOS SOCIAL HOUSING COVERED BONDS LLP**  
**MEMBERS' REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**HBOS SOCIAL HOUSING COVERED BONDS LLP  
MEMBERS AND LLP INFORMATION**

**DESIGNATED MEMBERS**

Bank of Scotland plc  
Addison Social Housing Limited, as Liquidation Member

**MANAGEMENT COMMITTEE**

N Laird (Bank of Scotland plc) (resigned 14 February 2017)  
A Steele (Bank of Scotland plc) (appointed 14 February 2017)  
F Kenny (Addison Social Housing Limited)

**REGISTERED OFFICE**

Charterhall House  
Charterhall Drive  
Chester  
CH88 3AN

**INDEPENDENT AUDITORS**

PricewaterhouseCoopers LLP  
Hays Galleria  
1 Hays Lane  
London  
SE1 2RD

**HBOS SOCIAL HOUSING COVERED BONDS LLP  
MEMBERS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**Registered Number OC310386**

On behalf of the designated members (the "Members") of HBOS Social Housing Covered Bonds LLP (the "LLP"), the Management Committee present their annual report and financial statements for the year ended 31 December 2017.

The LLP is a limited liability partnership domiciled in England. The LLP is registered in England & Wales.

**BUSINESS REVIEW AND PRINCIPAL ACTIVITIES**

The LLP is a special purpose entity whose business is the acquisition and management of Housing Association loans and their related security to support the Social Housing Covered Bonds issued by Bank of Scotland plc ("BOS"), a subsidiary of Lloyds Banking Group plc ("LBG").

The activities of the LLP are conducted primarily by reference to a series of transaction documents (the "Transaction Documentation") for the sale of the Housing Association loans. The structure has been established as a means of raising finance for BOS and no business activities will be undertaken by the LLP beyond those set out in the Transaction Documentation.

In consideration for the beneficial interest in the Housing Association loans, the LLP is required to give a combination of:

- i) a cash payment to BOS from the proceeds of a term loan;
- ii) a record of a capital contribution in kind being made by BOS; and
- iii) deferred consideration which will be paid by the LLP on each LLP payment date in accordance with the relevant priority of payments.

The programme allows a maximum Covered Bond issuance of £3bn, providing that the Housing Association loans acquired and other assets available meet the Asset Coverage Test (the "ACT") per the Transaction Documentation, which states that the adjusted aggregate amounts of the Housing Association loans and other assets (primarily cash) must be of an amount equal to or greater than the total amount of Social Housing Covered Bonds in issue after taking into account other deductions. More information on the Asset Coverage Test is provided in Note 13(a) to the Financial Statements.

During 2017, loans totalling £65,369,421 (2016: £256,537,786) were removed from the portfolio and no loans were added to the portfolio (2016: £0).

**DESIGNATED MEMBERS**

The Members during the year and up to the date of signing of the financial statements were as follows:

Bank of Scotland plc  
Addison Social Housing Limited, as Liquidation Member

**MEMBERS' INTERESTS**

The policy regarding the allocation of profits to Members and the treatment of capital contributions is set out in note 1 'Significant accounting policies'.

**HBOS SOCIAL HOUSING COVERED BONDS LLP  
MEMBERS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**Registered Number OC310386**

**STATEMENT OF MEMBERS' RESPONSIBILITIES**

The Members are responsible for preparing the Members' Report and the financial statements in accordance with applicable law and regulations.

Company law as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 (the "Regulations") requires the Members to prepare financial statements for each financial year. Under that law the Members have prepared the partnership financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law as applied to limited liability partnerships the Members must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the partnership and of the profit or loss of the partnership for that period. In preparing these financial statements, the Members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards ("IFRSs") as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the partnership will continue in business.

The Members are responsible for keeping adequate accounting records that are sufficient to show and explain the partnership's transactions and disclose with reasonable accuracy at any time the financial position of the partnership and enable them to ensure that the financial statements comply with the Companies Act 2006 as applied to limited liability partnerships by the Regulations. They are also responsible for safeguarding the assets of the partnership and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**RISK MANAGEMENT**

The LLP's assets and liabilities have been classified as financial instruments in accordance with IAS 32 "Financial Instruments: Presentation".

The LLP's financial instruments principally comprise a deemed loan (the "Deemed Loan") to BOS (the "Originator") (equivalent to the value of the LLP's investment in BOS loans), cash and cash equivalents, loans and borrowings and various other receivables and payables that arise directly from its operations. The main purpose of these financial instruments is to raise finance for BOS.

It is, and has been throughout the year under review, the LLP's policy that no trading in financial instruments is undertaken.

Further discussion of the LLP's approach to financial instruments is set out in note 1 'Significant accounting policies' and in note 13 'Management of risk'.

**HBOS SOCIAL HOUSING COVERED BONDS LLP  
MEMBERS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**Registered Number OC310386**

**EMPLOYEES**

The LLP has employed no staff during the year ended 31 December 2017 or the previous year.

**KEY PERFORMANCE INDICATORS ("KPIs")**

The Company's Directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance and position of the LLP.

**INDEPENDENT AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITORS**

Pursuant to section 487 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 auditors duly appointed by the Members of the LLP shall, subject to any resolution to the contrary, be deemed to be reappointed for the next financial year. Having indicated their willingness to do so, PricewaterhouseCoopers LLP will therefore continue in office.

So far as the Members are each aware, there is no relevant audit information of which the LLP's auditors are unaware. The Members have each taken all the steps that they ought to have taken as a member in order to make themselves aware of any relevant audit information and to establish that the LLP's auditors are aware of that information.

**STATEMENT OF GOING CONCERN**

As set out in the statement of compliance in the significant accounting policies section of the notes to the financial statements, the Members are satisfied that the LLP has adequate resources to continue in business for the foreseeable future and consequently the going concern basis continues to be appropriate in preparing the financial statements.

The LLP holds minimal reserves because all available profits are distributed each year to the Members.

By Order of the Members



A Steele on behalf of  
Bank of Scotland plc  
Designated Member

20th April 2018

# ***Independent auditors' report to the members of HBOS Social Housing Covered Bond LLP***

## **Report on the audit of the financial statements**

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### **Opinion**

In our opinion, HBOS Social Housing Covered Bond LLP's financial statements:

- give a true and fair view of the state of the limited liability partnership's affairs as at 31 December 2017 and of its result and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

We have audited the financial statements, included within the Members' report and financial statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2017; the statement of comprehensive income, the cash flow statement, the statement of changes in members' equity interests for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Independence**

We remained independent of the limited liability partnership in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the members' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the members have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the limited liability partnership's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the limited liability partnership's ability to continue as a going concern.

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### **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The members are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

## Responsibilities for the financial statements and the audit

### *Responsibilities of the members for the financial statements*

As explained more fully in the Statement of Members' Responsibilities set out on page [XX], the members are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The members are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the members are responsible for assessing the limited liability partnership's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the members either intend to liquidate the limited liability partnership or to cease operations, or have no realistic alternative but to do so.

### *Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

### *Use of this report*

This report, including the opinion, has been prepared for and only for the members of the partnership as a body in accordance with the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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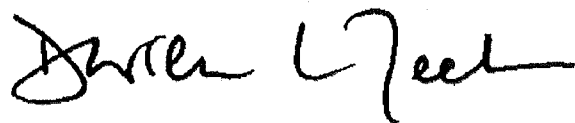
## Other required reporting

### **Companies Act 2006 exception reporting**

Under the Companies Act 2006 as applicable to limited liability partnerships we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the limited liability partnership, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Darren Meek (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

20 April 2018

**HBOS SOCIAL HOUSING COVERED BONDS LLP**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

		<b>2017</b>	<b>2016</b>
	<b>Note</b>	<b>£000</b>	<b>£000</b>
Interest receivable and similar income	2	4,204	9,125
Interest payable and similar charges	3	(4,031)	(8,962)
		<hr/>	<hr/>
<b>Net interest income</b>		173	163
Operating expenses	4	(173)	(163)
		<hr/>	<hr/>
<b>Result for the year</b>		-	-
		<hr/>	<hr/>

There are no items of comprehensive income which have not already been presented in arriving at the result for the year. Accordingly, the result for the year is the same as total comprehensive income for the year.

The result shown above is derived from continuing operations. The LLP operates in a single business segment and all of the LLP's activities are in the UK.

There was no income or expense recognised directly in equity in the current year or preceding years.

The notes on pages 11 to 31 form an integral part of these financial statements.



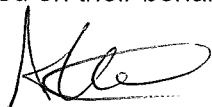
**HBOS SOCIAL HOUSING COVERED BONDS LLP**  
**BALANCE SHEET**  
**AS AT 31 DECEMBER 2017**

**Registered Number OC310386**

	<b>Note</b>	<b>2017 £000</b>	<b>2016 £000</b>
<b>Assets</b>			
Cash and cash equivalents	5	65,687	182,391
Deemed Loan to Originator	6	1,134,629	1,017,846
<b>Total assets</b>		<u>1,200,316</u>	<u>1,200,237</u>
<b>Members' other interests and liabilities</b>			
Loans and borrowings	8	(1,200,203)	(1,200,144)
Other payables	9	(113)	(93)
<b>Total liabilities</b>		<u>(1,200,316)</u>	<u>(1,200,237)</u>
Retained earnings	12	-	-
<b>Total Members' other interests</b>		<u>-</u>	<u>-</u>
<b>Total Members' other interests and liabilities</b>		<u>(1,200,316)</u>	<u>(1,200,237)</u>
<b>Total Members' interests</b>			
Retained earnings	12	-	-
Deemed Loan to Originator	6	(1,134,629)	(1,017,846)
Loans and borrowings	8	1,200,203	1,200,144
	12	<u>65,574</u>	<u>182,298</u>

The notes on pages 11 to 31 form an integral part of these financial statements

These financial statements were approved by the Members on 20<sup>th</sup> April 2018 and were signed on their behalf by:



A Steele on behalf of Bank of Scotland plc  
Designated Member

**HBOS SOCIAL HOUSING COVERED BONDS LLP**  
**STATEMENT OF CHANGES IN MEMBERS' OTHER INTERESTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

	<b>Note</b>	<b>Retained Earnings £000</b>
Balance at 1 January 2017		-
Result for the year		-
		<hr/>
Balance at 31 December 2017	12	-
		<hr/>

	<b>Note</b>	<b>Retained Earnings £000</b>
Balance at 1 January 2016		-
Result for the year		-
		<hr/>
Balance at 31 December 2016	12	-
		<hr/>

The notes on pages 11 to 31 form an integral part of these financial statements

**HBOS SOCIAL HOUSING COVERED BONDS LLP**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

	Note	2017 £000	2016 £000
<b>Operating Activities</b>			
Audit fees paid		-	(13)
Administration expenses		(154)	(127)
		<hr/>	<hr/>
<b>Net cash flows used in operating activities</b>		(154)	(140)
		<hr/>	<hr/>
<b>Investing Activities</b>			
Net Principal (repayments)/ receipts on Deemed Loan to Originator		(113,871)	654,283
Interest on Deemed Loan to Originator		827	6,650
Bank interest received		466	1,018
		<hr/>	<hr/>
<b>Net cash flows (used in) / generated from investing activities</b>		(112,578)	661,951
		<hr/>	<hr/>
<b>Financing Activities</b>			
Interest on term loan		(3,960)	(9,079)
Principal repayments on term loan		-	(500,000)
Interest paid to Members		(12)	(12)
		<hr/>	<hr/>
<b>Net cash flows used in financing activities</b>		(3,972)	(509,091)
		<hr/>	<hr/>
<b>Net (decrease) /(increase in cash and cash equivalents</b>		(116,704)	152,720
Cash and cash equivalents at 1 January		182,391	29,671
		<hr/>	<hr/>
<b>Cash and cash equivalents at 31 December</b>	5	65,687	182,391
		<hr/>	<hr/>

The cashflow statement is presented using the direct method to improve the transparency of the financial statements.

The notes on pages 11 to 31 form an integral part of these financial statements.

**HBOS SOCIAL HOUSING COVERED BONDS LLP  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**1. SIGNIFICANT ACCOUNTING POLICIES**

**(a) Statement of compliance**

The financial statements were authorised for issue by the Members on 20th April 2018. The financial statements for the year ended 31 December 2017 have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") as adopted by the European Union.

The financial statements also comply with the relevant provisions of Part 15 of the Companies Act 2006, as applying to Limited Liability Partnerships.

The LLP is reliant on support provided by BOS. The Members are satisfied that it is the current intention of LBG to ensure that its subsidiaries, including BOS and the LLP, shall have at all times in the foreseeable future (being the period until at least 30 April 2019) access to adequate capital and liquidity resources to continue as a going concern. Accordingly, the financial statements have been prepared on a going concern basis.

The financial statements are presented in Sterling which is the LLP's functional and presentation currency and have been prepared on the historical cost basis.

The accounting policies set out below have been applied consistently in the preparation of the financial statements

**(b) Revenue recognition**

Interest receivable and similar income have been calculated using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the financial instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the future cashflows are estimated after considering all the contractual terms of the instrument but not future credit losses.

**(c) Accrued interest**

Accrued interest has been incorporated within the Deemed Loan to Originator and outstanding balance of loans and borrowings on the Balance Sheet. A split between principal and accrued interest can be found in notes 8.

**(d) Financial instruments**

The LLP's financial instruments principally comprise a Deemed Loan to BOS (equivalent to the value of the LLP's investment in BOS loans), cash and cash equivalents, loans and borrowings and various other receivables and payables that arise directly from its operations. The main purpose of these financial instruments is to raise finance for BOS. These financial instruments are classified in accordance with the principles of IAS 39 as described below.

**HBOS SOCIAL HOUSING COVERED BONDS LLP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(d)(i) Deemed Loan to Originator**

Under IAS 39, if a transferor retains substantially all the risks and rewards associated with the transferred assets, the transaction is accounted for as a financing transaction, notwithstanding that it is a sale transaction from a legal perspective. The Members of the LLP have concluded that the Originator has retained substantially all the risks and rewards of the portfolio of Housing Association loans sold to the LLP and as a consequence, the LLP does not recognise the Housing Association loans on its Balance Sheet but rather a Deemed Loan to Originator, where recourse to BOS is limited to the cash flows from the Housing Association loans and any additional credit enhancement provided by BOS.

The initial amount of the Deemed Loan to Originator corresponds to the consideration paid by the LLP for the Housing Association loans. The LLP recognises principal and interest cash flows from the underlying portfolio of Housing Association loans only to the extent that it is entitled to retain such cash flows. Cash flows attributable to the Originator are not recognised by the LLP.

The Deemed Loan to Originator is classified within "loans and receivables". The initial measurement is at fair value with subsequent measurement being at amortised cost using the effective interest method. The effective interest on the Deemed Loan to Originator is calculated with reference to the interest earned on the beneficial interest in the Housing Association portfolio less the residual interest due to the Originator. Under the terms of the loan sale agreement, the Originator retains the right to receive excess income arising on those loans, after certain higher priority payments have been met by the LLP.

**Impairment of financial assets**

The Deemed Loan is subject to impairment reviews in accordance with IAS 39. A charge for impairment would be recognised where there is a risk that the cash flows on the Deemed Loan to Originator will be significantly reduced. This could occur if the credit quality of the Housing Association assets that are pledged as collateral for the loan have significantly deteriorated. Currently the Management Committee consider that no impairment exists.

**(d)(ii) Cash and cash equivalents**

The LLP holds deposits with the provider of a guaranteed investment contract ("GIC") and a transaction bank account with the same provider, being BOS. These accounts are held in the LLP's name and meet the definition of cash and cash equivalents. All cash disclosed on the face of the Balance Sheet is restricted by a detailed priority of payments set out in the Transaction Documentation. As the cash can only be used to meet specific liabilities and is not available to be used with discretion, it is viewed as restricted cash.

**HBOS SOCIAL HOUSING COVERED BONDS LLP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(d)(iii) Loans and borrowings**

Loans and borrowings are recognised initially at fair value plus directly related incremental transaction costs. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Statement of Comprehensive Income over the period of the borrowings on an effective interest basis. The term loans (equivalent to the proceeds of the covered bonds issued) which are received from BOS are accounted for on this basis.

Capital contributions from Members are non-interest-bearing but a nominal profit share amount is paid out in accordance with the priority of payments (see 1(e) below) and included as part of interest payable and similar charges.

**(e) Contribution and drawings**

Under the terms of the LLP Deed, the Originator is treated as having made a capital contribution to the LLP in an amount equal to the difference between the current balance of the loans sold at transfer date and the cash payment made by the LLP for the loans and relevant security on that transfer date.

If so requested by the Management Committee, the Members (other than the Liquidation Member) may from time to time make cash contributions to the LLP which will constitute cash capital contributions. Addison Social Housing Limited will not make any capital contributions to the LLP. No interest is paid on the Members' capital balances. Capital distributions may only be made in accordance with the LLP Deed, where sufficient principal receipts are available and higher priority payments have been made.

The LLP has no control over the repayment of the capital contributions, which are driven by actual repayments on the underlying loans in the portfolio which make cash available to be paid in accordance with the priority of payments. These loans may be repaid by the borrowers at any time.

Under the priority of payments, payment *pro rata* and *pari passu* to the Members of the sum of £3,000 in aggregate (or such other sum as may be agreed by Members from time to time) is allocated and paid to each member in proportion to their respective capital contribution balances as at each quarterly calculation date, subject to a minimum of £1 each, as their profit for their respective interests as Members in the LLP.

**(f) Segment reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those segments operating in other economic environments.

The Members of the LLP consider that the entity has only one geographical and one business segment and therefore is not required to produce additional segmental disclosure.

**HBOS SOCIAL HOUSING COVERED BONDS LLP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(g) Critical accounting estimates and judgements**

The preparation of the financial statements necessarily requires the exercise of judgement both in the application of accounting policies and in the selection of assumptions used in the calculation of accounting estimates. These judgements are reviewed on an ongoing basis and are continually evaluated based on historical experience and other factors. The most significantly affected components of the financial statements and associated critical judgements are as follows:

**Effective interest rate method**

The effective interest rate is calculated on initial recognition of the financial asset or liability, estimating the future cash flows after considering all the contractual terms of the instrument but not future credit losses. The calculation includes all amounts expected to be paid or received by the LLP including expected early redemption fees and related penalties and premiums and discounts that are an integral part of the overall return. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

**Fair value calculations**

Fair value is defined as the value at which assets, liabilities or positions could be closed out or sold in a transaction with a willing and knowledgeable counterparty. Fair value is based upon cash flow models which use, wherever possible, independently sourced market parameters, such as interest yield curves. Other factors are also considered, such as counterparty credit quality and liquidity.

**Impairment of Deemed Loan**

The LLP's accounting policy for losses arising on the Deemed Loan to Originator classified as loans and receivables is described in note 1(d)(i). The allowance for impairment losses on loans and receivables is management's best estimate of losses incurred in the portfolio at the Balance Sheet date. Impairment allowances are established to recognise incurred impairment losses in the LLP's loan portfolios carried at amortised cost. In determining whether impairment has occurred at the Balance Sheet date the LLP considers whether there is any observable data indicating that there has been a measurable decrease in the estimated future cash flows or their timings. Where this is the case, the impairment loss is the difference between the carrying value of the loan and the present value of the estimated future cash flows discounted at the loan's original effective interest rate.

At 31 December 2017, impairment allowances against the Deemed Loan to Originator totalled £nil (2016: £nil).

**(h) Taxation**

Taxation on all partnership profits is solely the personal liability of individual Members. Consequently, neither taxation nor related deferred taxation in the LLP are accounted for in these financial statements.

**HBOS SOCIAL HOUSING COVERED BONDS LLP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(i) Related parties**

In accordance with the provisions of IAS 24 "Related Party Disclosures", the LLP has disclosed details of transactions with its related parties (note 14).

**(j) Other payables**

Other payables are stated at cost, or at amortised cost if deemed to be a financial liability.

**(k) Value added tax**

Value added tax is not recoverable by the LLP and is included with the related costs.

**(l) Covered bonds swap agreement**

The LLP has entered into a Covered Bonds Swap Agreement with BOS. This agreement provides a hedge against interest rate, currency and/or other risks in respect of amounts received by the LLP from the Housing Association loans and the interest rate swap and amounts payable by the LLP under the Covered Bonds Guarantee in respect of the Covered Bonds.

The Covered Bonds Swap Agreement provides a hedge against risks the LLP is exposed to following a BOS event of default and the service on the LLP of a notice to pay. As such, no payments of interest or exchanges of principal are due and payable under this agreement prior to these events. In accordance with the terms of this swap, the swap provider will pay to the LLP amounts equivalent to the amounts that would be payable by the LLP under the Covered Bonds guarantee in respect of interest and principal payable under the Covered Bonds and, in return, the LLP will pay to the Covered Bonds swap provider on each LLP payment date an amount equal to three-month Sterling LIBOR for the relevant interest period plus a spread.

Following amendments to the Covered Bonds Swap Agreement in December 2012 it has been agreed that BOS is only required to post collateral should its credit rating fall below A (long term) or A-1 (short term) by S&P, or P-1 (short term) by Moody's. The collateral posted would only be utilised by the LLP in the event of a default occurring as referred to in the Transaction Documentation. There was no fall in credit rating below stipulated ratings during the year.

**(m) Financial guarantee from BOS**

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. BOS has provided a financial guarantee to the LLP, the terms of which, as detailed in the Transaction Documentation, is described below.

BOS is required to buy back all defaulting Housing Association loans from the LLP once they reach more than 60 days in arrears. There is no loss suffered by the LLP, as this buy-back includes all outstanding amounts, including all arrears on the Housing Association loans. There were no such buy backs in the current or prior years.



**HBOS SOCIAL HOUSING COVERED BONDS LLP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(m) Financial guarantee from BOS (continued)**

The maximum potential amount payable to the LLP under the guarantee is equal to the non-current amount outstanding on the Deemed Loan to Originator. This amounted to £1,141,233,240 as at 31 December 2017 (2016: £1,027,362,431).

**2. INTEREST RECEIVABLE AND SIMILAR INCOME**

	<b>2017</b> <b>£000</b>	<b>2016</b> <b>£000</b>
Interest receivable on Deemed Loan	3,738	8,107
Bank interest receivable	466	1,018
	<hr/> 4,204	<hr/> 9,125
	<hr/>	<hr/>

**3. INTEREST PAYABLE AND SIMILAR CHARGES**

	<b>2017</b> <b>£000</b>	<b>2016</b> <b>£000</b>
Interest payable to BOS on term loans	4,019	8,950
Interest payable to Members	12	12
	<hr/> 4,031	<hr/> 8,962
	<hr/>	<hr/>

**HBOS SOCIAL HOUSING COVERED BONDS LLP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**4. OPERATING EXPENSES**

	<b>2017</b> <b>£000</b>	<b>2016</b> <b>£000</b>
Administration charges	160	150
Audit fees	13	13
	<hr/>	<hr/>
	173	163
	<hr/>	<hr/>

Audit fees relate to the statutory audit. The LLP has also accrued an audit fee of £1,200 (2016: £1,200) on behalf of Addison Social Housing Limited and Addison Social Housing Holdings Limited. There are no fees payable to the auditors and their associates for services other than the statutory audit.

**5. CASH AND CASH EQUIVALENTS**

The LLP has placed its deposit account with a provider of a GIC, BOS, a subsidiary undertaking of LBG. Withdrawals from this account are restricted by the detailed priority of payments set out in the Transaction Documentation. The LLP is contractually entitled to a variable rate of interest of 0.25 per cent per annum below LIBOR for three-month Sterling deposits, which is recorded as interest receivable in the Statement of Comprehensive Income.

	<b>2017</b> <b>£000</b>	<b>2016</b> <b>£000</b>
Bank deposit account	65,687	182,391
	<hr/>	<hr/>

**6. DEEMED LOAN TO ORIGINATOR**

Income on the Deemed Loan to Originator, arising on the underlying loans, reflects fixed, variable and tracker rates. Deferred consideration is deducted from this income in order to arrive at the effective yield on the Deemed Loan.

	<b>2017</b> <b>£000</b>	<b>2016</b> <b>£000</b>
<b>Non-current assets</b>		
Deemed Loan to Originator	919,849	805,977
<b>Current assets</b>		
Deemed Loan to Originator	214,780	211,869
	<hr/>	<hr/>
<b>TOTAL</b>	1,134,629	1,017,846
	<hr/>	<hr/>

**HBOS SOCIAL HOUSING COVERED BONDS LLP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**7. LOANS AND BORROWINGS**

This note provides information about the contractual terms of the LLP's loans and borrowings. For more information about the LLP's exposure to interest rate risk, see note 13.

Loans and borrowings comprise a series of term loans from BOS, equivalent to the amounts raised under its Covered Bonds Programme. Each term advance bears interest at a rate equal to LIBOR for three-month Sterling deposits.

BOS will not be relying on repayment of any term loan by the LLP nor the interest thereon in order to meet its repayment or interest obligations under the Covered Bonds Programme. The term loans will not be repaid by the LLP until all amounts payable under the corresponding series of Covered Bonds have been repaid in full. Amounts owed by the LLP will be subordinated to amounts owed under the Covered Bond Guarantee described below.

The Covered Bonds are unconditionally guaranteed by BOS (the "Group Guarantor"). Under the terms of the Trust Deed, the LLP has also provided a guarantee as to payments of interest and principal under the Covered Bonds Programme, where amounts would otherwise be unpaid by BOS or the Group Guarantor. The obligations of the LLP under its guarantee constitute direct obligations of the LLP secured against the assets from time to time of the LLP and recourse against the LLP is limited to such assets. The principal asset is the beneficial interest in the Housing Association loans acquired from BOS.

Where the LLP enters into financial guarantee contracts to guarantee the indebtedness of BOS, the LLP treats the above guarantee contract as a contingent liability until such time as it becomes probable that the LLP will be required to make a payment under the guarantee.

	<b>2017</b> <b>£000</b>	<b>2016</b> <b>£000</b>
<b>Non-current liabilities</b>		
Term loans with BOS	1,200,000	1,200,000
<b>Current liabilities</b>		
Interest due on term loans	203	144
<b>TOTAL</b>	<b>1,200,203</b>	<b>1,200,144</b>

**HBOS SOCIAL HOUSING COVERED BONDS LLP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**7. LOANS AND BORROWINGS (CONTINUED)**

The term loans due to BOS mature following repayment of the Covered Bonds on the following dates:

<b>Covered Bond issuance</b>	<b>Maturity date</b>	<b>2017 £000</b>	<b>2016 £000</b>
<b>Non-current liabilities</b>			
2004-1	20 December 2024	500,000	500,000
2008-1 (Tranche 2)	8 November 2019	100,000	100,000
2008-2 (Tranche 2)	8 November 2019	500,000	500,000
2008-2 (Tranche 3)	8 November 2022	100,000	100,000
		1,200,000	1,200,000

**8. OTHER PAYABLES**

	<b>2017 £000</b>	<b>2016 £000</b>
Accruals and deferred income	87	80
Audit fee accrual	26	13
	113	93

**HBOS SOCIAL HOUSING COVERED BONDS LLP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**9. TOTAL MEMBERS' INTERESTS**

**2017**

	<b>Members' Other Interests</b>				
	<b>Members' Capital</b>	<b>Retained Earnings</b>	<b>Total</b>	<b>Loans due to/(from) Members</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Members' interests as at 1 January 2017	-	-	-	182,298	182,298
Loans issued by BOS	-	-	-	59	59
Movements in amounts due to/(from) members	-	-	-	(116,783)	(116,783)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Members' interests as at 31 December 2017	-	-	-	65,574	65,574
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The loans and other debts due to/(from) Members can be analysed as follows:

	<b>Members' interests as at 31 December 2017 £'000</b>
Amounts due to Members	1,200,203
Amounts due from Members	(1,134,629)
	<hr/>
	65,574
	<hr/>

**HBOS SOCIAL HOUSING COVERED BONDS LLP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**9. TOTAL MEMBERS' INTERESTS (CONTINUED)**

**2016**

	<b>Members' Other Interests</b>				
	<b>Members' Capital</b>	<b>Retained Earnings</b>	<b>Total</b>	<b>Loans due to/(from) Members</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Members' interests as at 1 January 2016	-	-	-	29,600	29,600
Loans repaid by BOS	-	-	-	(500,128)	(500,128)
Movements in amounts due to/(from) members	-	-	-	652,826	652,826
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Members' interests as at 31 December 2016	-	-	-	182,298	182,298
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The loans and other debts due to/(from) Members can be analysed as follows:

	<b>Members' interests as at 31 December 2016 £'000</b>
Amounts due to Members	1,200,144
Amounts due from Members	(1,017,846)
	<hr/>
	182,298
	<hr/>

**HBOS SOCIAL HOUSING COVERED BONDS LLP  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**10. MANAGEMENT OF RISK**

The majority of the LLP's assets and liabilities have been classified as financial instruments in accordance with IAS 32 "Financial Instruments: Presentation".

The LLP's financial instruments principally comprise a Deemed Loan to Originator (equivalent to the value of the LLP's investment in BOS and Lloyds Housing Association loans), cash and cash equivalents, loans and borrowings and various other receivables and payables that arise directly from its operations.

The principal risks arising from the LLP's financial instruments are credit risk; interest rate risk; liquidity risk and prepayment risk. Further detailed analysis of the risks facing the LLP in relation to its financial instruments is provided below.

The activities of the LLP are conducted primarily by reference to the Transaction Documentation which covers the purchase of the Housing Association loans. The structure was established as a means of raising finance for BOS and no business activities are undertaken by the LLP beyond those set out in the Transaction Documentation.

The LLP's exposure to risk on its financial instruments and the management of such risk is largely determined at the initial set-up of the LLP. The LLP's activities and the role of each party to the transaction is clearly defined and documented. Cash flow modelling, including multiple stress scenarios, is carried out as part of the structuring of the transaction, and is required by the rating agencies.

In addition, an interest rate swap is entered into with the Originator as part of the transaction to hedge against interest rate risk arising in the transaction including the obligations under the term loans. The derivative counterparty is selected as a regulated financial institution and this reduces the risk of default and loss for the LLP. Additional credit protection may be afforded by the requirement for the derivative counterparties to post collateral in the event of a downgrade to a counterparty's credit rating.

Following initial set-up, the Members monitor the LLP's performance, reviewing monthly reports on the performance of the Housing Association loans and the quarterly investor reports. Such review is designed to ensure that the terms of the Transaction Documentation have been complied with, that no unforeseen risks have arisen and that the interest and principal on the term loans have been paid on a timely basis. Where necessary, the Members also make appropriate enquiries of the LLP's professional advisers concerning specific matters which may affect the nature and extent of particular risks to the LLP.

**HBOS SOCIAL HOUSING COVERED BONDS LLP  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**10. MANAGEMENT OF RISK (CONTINUED)**

**10(a) Credit risk**

Credit risk arises where there is a possibility that a counterparty may default on its financial obligations resulting in a loss to the LLP.

The LLP has a concentration of risk to the Originator of the Housing Association loans as the LLP's bank accounts, including those covered by the GIC, are held with BOS whom also acts as swap counterparty, servicer of the Housing Association loans ("the Servicer") and cash manager.

Credit risk arises on the individual loans within the Housing Association loan portfolio. The ability of the LLP to pay the term loan interest and principal to BOS will depend on the amount and timing of payment of interest and principal on the Housing Association loans by the borrowers as well as timely receipts from the swap counterparty.

In terms of arrears management, the LLP has engaged BOS as the Servicer of the loans in the portfolio to help reduce the risk of loss. The Servicer is required to monitor repayments on the Housing Association loans in accordance with its usual credit policies. The Servicer is also responsible for ensuring Housing Association loans in the portfolio meet the eligibility criteria set out in the Transaction Documentation.

Credit enhancement is provided to the LLP by BOS. The income on the Housing Association loan portfolio is expected to exceed the LLP's expenses and the interest payable on the term loans. Any excess income, known as excess spread, that is not required to meet expenses or interest payments is returned to the Originator as a deferred consideration payment.

Credit risk for the LLP is mitigated by the amount of overcollateralisation of the beneficial interest in loans and which is monitored using an asset coverage test. The overcollateralisation is available in full for the benefit of the LLP. The Transaction Documentation provides that the LLP and its Members should ensure that the adjusted aggregate loan amount of the loan portfolio asset is at least equal to or greater than the aggregate amount outstanding on the Covered Bonds on each calculation date. The adjusted loan amount is the balance of the Housing Association loans after adjusting for various set-offs and adjustments unique to particular groups of loans, together with allowances for loan defaults.

In the event that there is a breach of the ACT, the Members (excluding the Liquidation Member) are required to take steps to make good the deficit by providing either the necessary capital contributions to enable further Housing Association loans to be acquired or in cash, as a cash capital contribution, in order that the ACT breach is cured before the next ACT calculation. If there is a breach at the following calculation date, this will constitute a BOS Event of Default, which will entitle the Bond Trustee to serve a BOS Acceleration Notice on the Issuer of the Covered Bonds and the Group Guarantor, BOS. Upon service of such notice, the Bond Trustee will serve a Notice to Pay on the LLP under the Covered Bonds guarantee. This would require the LLP to repay all amounts outstanding on the Covered Bonds, including principal and accrued interest amounts.

In accordance with the Transaction Documentation the Originator shall be entitled to remove Loans (the "Removed Loans") and their Related Security from the portfolio, provided that before and following such removal, the ACT shall continue to be satisfied and that no Event of Default has occurred.



**HBOS SOCIAL HOUSING COVERED BONDS LLP  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**10. MANAGEMENT OF RISK (CONTINUED)**

**10(a) Credit risk (continued)**

During 2017, loans totalling £65,369,421 (2016: £256,537,786) were removed from the portfolio. The ACT continued to be satisfied following the removal of these loans.

The Transaction Documentation also provides for the inclusion of new loans in the portfolio. The inclusion of new loans provides additional credit enhancement by adding to the amount of overcollateralisation of the beneficial interest in the loans which is monitored using the ACT. During 2017 £0 (2016: £0) of loans were added to the portfolio.

The total loan portfolio made available to the LLP at 31 December 2017 amounted to £1,141,233,240 (2016: £1,027,362,431). As noted in the accounting policies section, the LLP does not recognise the loan portfolio but rather a Deemed Loan to Originator to the extent of the cash consideration paid to BOS.

To the extent that the cash flows on the Deemed Loan does not provide sufficient funds to recover the LLP's investment in the Housing Association loan portfolio, the LLP has no claim on the assets of BOS. During the current year, sufficient cash has been received from the Deemed Loan to enable the LLP to make all necessary payments on the term loans following repayment of the related series of Covered Bonds by BOS.

During 2017, there were no redemptions of the covered bond issuance. (2016: £500,000,000)

The LLP assesses its counterparties for credit risk before contracting with them. Credit rating is the main method used to measure credit risk. In accordance with the criteria of the rating agencies that rate the Covered Bonds issued by BOS and by association the term loans received by the LLP, the Transaction Documentation contains various rating triggers linked to each counterparty, which require certain actions to be taken if triggers are breached. A key trigger which would indirectly impact the LLP is the short term rating of BOS.

	<b>Rating as at 31 December 2017</b>	<b>Rating as at date of approval of financial statements</b>
	<b>Moody's/S&amp;P</b>	<b>Moody's/S&amp;P</b>
BOS as provider of:		
Covered bonds swap, interest rate swap and bank accounts	Short term: P-1/A-1 Long term: Aa3/A	Short term: P-1/A-1 Long term: Aa3/A

**HBOS SOCIAL HOUSING COVERED BONDS LLP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**10. MANAGEMENT OF RISK (CONTINUED)**

**10(a) Credit risk (continued)**

In the event that a swap counterparty is downgraded by a rating agency below the ratings specified in the relevant swap agreement, the relevant swap provider will be required to take certain remedial measures as defined in that agreement which may include providing collateral for its obligations under the relevant swap, arranging for its obligations to be transferred to an entity with a sufficient rating, procuring another entity with a sufficient rating to become co-obligor for its obligations, or taking such other action as it may agree with the relevant rating agency.

**Financial assets subject to credit risk**

The maximum exposure to credit risk arising on the LLP's financial assets at the reporting date is disclosed in the table below and equates to carrying value.

	Notes	2017 £000	2016 £000
<b>Assets held at amortised cost:</b>			
Cash and cash equivalents	5	65,687	182,391
Deemed Loan to Originator	6	1,134,629	1,017,846
		<hr/>	<hr/>
		1,200,316	1,200,237
		<hr/>	<hr/>

At the Balance Sheet date all financial assets subject to credit risk were neither past due nor impaired. A financial asset is "past due" if a counterparty has failed to make a payment when contractually due. BOS is required to buy back all defaulting Housing Association loans from the LLP once they reach more than 60 days in arrears. There is no loss suffered by the LLP, as this buy-back includes all outstanding amounts, including all arrears on the Housing Association loans. Accordingly the Members consider the credit risk to be sufficiently mitigated. As at 31 December 2017 no loan accounts were considered past due (2016: nil).

**10(b) Interest rate risk**

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times. The LLP minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of assets and liabilities are similar; where this is not possible the LLP uses derivative financial instruments to mitigate interest rate risk. The Deemed Loan, the term loans and the cash and cash equivalents are exposed to cash flow interest rate risk caused by floating interest rates that are reset periodically.

An interest rate swap has therefore been entered into with BOS to manage the LLP's exposure to interest rate risk associated with the Deemed Loan and the term loans.

**HBOS SOCIAL HOUSING COVERED BONDS LLP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**10. MANAGEMENT OF RISK (CONTINUED)**

**10(b) Interest rate risk (continued)**

The underlying loan portfolio comprises loans which are subject to variable rates of interest set by the Servicer, loans which track the Bank of England Base Rate and loans which bear fixed rates of interest. Under the terms of the swap, the LLP pays the interest received from the loan portfolio and receives interest on a LIBOR rate set with reference to three-month Sterling deposits.

The interest rate swap substantially eliminates the sensitivity to movements in interest rates. The swap is not separately recognised in the financial statements as it forms part of the Deemed Loan.

**10(c) Liquidity risk**

Liquidity risk is the risk that the LLP is not able to meet its financial obligations as they fall due.

The LLP's ability to meet payments on the term loans as they fall due is dependent on the amounts and timing of the interest and principal repayments on the loans which underlie the Deemed Loan to Originator and timely receipts from BOS in their capacity as the swap counterparty. The timely receipt of funds from the Deemed Loan may be delayed due to slow repayment on the loan portfolio (see 13(a) Credit risk above and 13(d) Prepayment risk below).

Principal repayments are made on the term loans with BOS in accordance with the LLP's principal priority of payments and reflect the amount of principal collections on the underlying Housing Association loans. The LLP will seek to accumulate funds from its share of the loan portfolio in order to repay the term loans in accordance with the expected maturity dates of the Covered Bonds issued by BOS.

In the event that the LLP does not have sufficient cash flows from the underlying Housing Association loans in order to be able to repay the term loans as and when they fall due, the Members may be required to make cash capital contributions in accordance with the terms of the Transaction Documentation.

The liquidity tables below reflect the undiscounted cash payments which will fall due if the structure continues until the contractual maturity date (see note 8) as set out in the Transaction Documentation. It is anticipated that the interest and principal received on the Deemed Loan to Originator will be sufficient to allow repayment of the term loans.

**HBOS SOCIAL HOUSING COVERED BONDS LLP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**10. MANAGEMENT OF RISK (CONTINUED)**

**10(c) Liquidity risk (continued)**

<b>2017</b>	<b>Carrying Value</b>	<b>Contractual repayment value</b>	<b>Not later than one month</b>	<b>Later than one month not later than three months</b>	<b>Later than three months but not later than one year</b>	<b>Later than one year and not later than five years</b>	<b>Later than Five years</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Principal</b>							
Term loans with BOS	1,200,000	1,200,000	-	-		700,000	500,000
Other payables	113	113	-	-	113	-	-
<b>Interest payable</b>							
Term loans with BOS	203	26,673	-	1,563	4,690	15,210	5,211
	1,200,316	1,226,786	-	1,563	4,803	715,210	505,211
<b>2016</b>	<b>Carrying Value</b>	<b>Contractual repayment value</b>	<b>Not later than one month</b>	<b>Later than one month not later than three months</b>	<b>Later than three months but not later than one year</b>	<b>Later than one year and not later than five years</b>	<b>Later than Five years</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Principal</b>							
Term loans with BOS	1,200,000	1,200,000	-	-	-	600,000	600,000
Other payables	93	93	3	-	90	-	-
<b>Interest payable</b>							
Term loans with BOS	144	23,168	-	1,100	3,300	12,944	5,824
	1,200,237	1,223,261	3	1,100	3,390	612,944	605,824

**10(d) Prepayment risk**

Cash flows on the Deemed Loan to Originator are dependent on the underlying Housing Association loans which have a final legal maturity of December 2024. However, in the normal course of business, a proportion of borrowers repay their loans in advance of their contractual maturity. As a result the weighted average life of the Deemed Loan and of the term loans may be significantly less than that implied by the contractual maturity dates of the Housing Association loans.

**HBOS SOCIAL HOUSING COVERED BONDS LLP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**10. MANAGEMENT OF RISK (CONTINUED)**

**10(d) Prepayment risk (continued)**

The rate of prepayment of loans is influenced by a wide variety of economic, social and other factors, including prevailing market interest rates, the availability of alternative financing, local and regional economic conditions.

Prepayment on the Housing Association loans will not impact the weighted average life of the term loans as the Covered Bonds will only be repaid in line with contractual maturity dates.

The Constant Prepayment Rate ("CPR") rate for the underlying loan portfolio is as follows:

	<b>Monthly CPR %</b>	<b>1-month annualised %</b>	<b>3-month annualised %</b>	<b>12-month annualised %</b>
<b>31 December 2017</b>	1.57	17.31	15.14	26.42
<b>31 December 2016</b>	8.27	64.51	30.37	26.58

**10(e) Fair values**

The LLP's financial statements have been prepared under the historical cost convention.

**Estimation of fair values**

The manner in which financial instruments are designated for measurement purposes is set out in the accounting policies. The main methods and assumptions used in estimating the fair value of financial instruments are summarised therein.

**Other financial instruments held at amortised cost**

The Deemed Loan to Originator, cash and cash equivalents and other receivables and payables are recognised on an amortised cost basis that is considered to be a close approximation to fair value.

**10(f) Offsetting**

The LLP has no financial assets or financial liabilities that are subject to offsetting, enforceable master netting arrangements or similar agreements.

**HBOS SOCIAL HOUSING COVERED BONDS LLP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**11. RELATED PARTIES**

The LLP is a special purpose entity controlled by BOS, one of the two Designated Members. The second Designated Member is Addison Social Housing Limited. BOS is a subsidiary undertaking of LBG.

Intertrust Offshore Limited, a company incorporated and registered in Jersey, Channel Islands, is the parent company of Addison Social Housing Holdings Limited, the majority shareholder of Addison Social Housing Limited. The LLP pays corporate services fees to Intertrust Management Limited and Intertrust Offshore Limited in connection with its provision of corporate management services. In 2017 this amounted to an expense in the Statement of Comprehensive Income of £14,202 (2016: £9,149) and £9,834 (2016: £5,694) respectively. Of these fees, £6,134 relates to the provision of Directors.

The LLP pays cash management and administration servicing fees to BOS in connection with its provision of services defined under the Covered Bonds agreements. In 2017, such fees amounted to £375,000 (2016: £500,000). BOS is the counterparty to the interest rate swap agreement, on which there is an associated interest benefit.

BOS has provided a series of term advances to the LLP, on which the LLP pays a variable rate of interest, equivalent to LIBOR for three-month Sterling deposits.

The LLP has placed its deposit account with BOS, as a provider of a GIC, and it is contractually entitled to a variable rate of interest of 0.25 per cent per annum below LIBOR for the three-month Sterling deposits.

During the year, the LLP undertook the transactions set out below with companies within the LBG:

	<b>LBG and Subsidiary Undertakings 2017 £000</b>	<b>LBG and Subsidiary Undertakings 2016 £000</b>
<b>Interest receivable and similar income</b>		
Income from Deemed Loan to Originator	3,738	8,107
Bank interest receivable	466	1,018
<b>Interest payable and similar charges</b>		
Interest payable to BOS on term loans	(4,019)	(8,950)
Interest payable to Members	(12)	(12)
<b>Assets</b>		
Cash and cash equivalents	65,687	182,391
Deemed Loan to Originator	1,134,629	1,017,846
<b>Liabilities</b>		
Term loans from BOS	(1,200,203)	(1,200,144)

**HBOS SOCIAL HOUSING COVERED BONDS LLP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**12. FUTURE ACCOUNTING DEVELOPMENTS**

The following pronouncements may have a significant effect on the LLP's financial statements but are not applicable for the year ending 31 December 2017 and have not been applied in preparing these financial statements. Save as disclosed below, the full impact of these accounting changes is still being assessed by the LLP.

<b>Pronouncement</b>	<b>Nature of change</b>	<b>IASB effective date</b>
IFRS 9 <i>Financial Instruments</i>	<p>Replaces IAS 39 <i>Financial Instruments: Recognition and Measurement</i>.</p> <p>IFRS 9 requires financial assets to be classified into three measurement categories, fair value through profit and loss, fair value through other comprehensive income and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. The requirements for derecognition are broadly unchanged from IAS 39. The standard also retains most of the IAS 39 requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value change attributable to the entity's own credit risk is recorded in other comprehensive income.</p> <p>IFRS 9 also replaces the existing IAS 39 'incurred loss' impairment approach with an expected credit loss approach. Loan commitments and financial guarantees not measured at fair value through profit or loss are also in scope. Those changes may result in an increase in the LLP's balance sheet provisions for credit losses depending upon the composition of the LLP's amortised cost financial assets, as well as the general economic conditions and the future outlook.</p> <p>The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices and follow a more principle-based approach than IAS 39. There is an option to retain the existing IAS 39 hedge accounting requirements until the IASB completes its project on macro hedging</p> <p>The LLP has conducted an analysis of these changes and does not consider there to be a material impact of applying IFRS 9.</p> <p>The LLP has chosen 1 January 2018 as its initial application date of IFRS9 and will not restate comparative periods.</p>	Annual periods beginning on or after 1 January 2018.

**HBOS SOCIAL HOUSING COVERED BONDS LLP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

**12. FUTURE ACCOUNTING DEVELOPMENTS (CONTINUED)**

<b>Pronouncement</b>	<b>Nature of change</b>	<b>IASB effective date</b>
IFRS 15 <i>Revenue from Contracts with Customers</i>	Replaces IAS 18 <i>Revenue</i> and IAS 11 <i>Construction Contracts</i> . IFRS 15 establishes principles for reporting useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods and services. Financial instruments, leases and insurance contracts are out of scope and so this standard does not have a significant impact on the LLP.	Annual periods beginning on or after 1 January 2018
IFRS 16 <i>Leases</i>	IFRS 16 requires lessees to recognise a right of use asset and a liability for future payments arising from a lease contract. Lessees will recognise a finance charge on the liability and a depreciation charge on the asset which could affect the timing of the recognition of expenses on leased assets. This standard does not have a significant impact on the LLP.	Annual periods beginning on or after 1 January 2019

**13. PARENT UNDERTAKING AND CONTROLLING PARTY**

As at 31 December 2017, the LLP's Designated Members were BOS and Addison Social Housing Limited (as Liquidation Member). LBG, a public limited company registered and domiciled in Scotland, was regarded by the Members as the ultimate parent undertaking and controlling party. LBG is also the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which these financial statements are consolidated.. BOS is the parent undertaking of the smallest such group of undertakings. Copies of the group financial statements of BOS and LBG may be obtained from the Group Secretariat, Lloyds Banking Group plc, The Mound, Edinburgh, EH1 1YZ.